Parker Reports Second Quarter Sales, Net Income and Earnings per Share

- Company revises guidance for fiscal 2009

CLEVELAND, Jan. 20 /PRNewswire-FirstCall/ -- Parker Hannifin Corporation (NYSE: PH), the world leader in motion and control technologies, today reported results for its fiscal 2009 second quarter ending December 31, 2008. Fiscal 2009 second quarter sales were $2.7 billion, a decline of 5.0 percent from $2.8 billion in the same quarter a year ago. Net income declined 26.7 percent to $155.4 million from $211.9 million in the second quarter of fiscal 2008. Earnings per diluted share declined 22.0 percent to 96 cents compared with $1.23 in last year's second quarter. Cash flow from operations for the first six months of fiscal 2009 was $444.5 million, or 7.7 percent of sales.

"Current quarter results reflect the fact that the global recession has deepened and widened in recent months and creates some uncertainty for the remainder of our fiscal year and throughout calendar 2009," said Chairman, CEO and President Don Washkewicz. "Although we are positioned to fare much better in this recession than in the past, current market conditions are unprecedented and have required us to lower our expectations for the year and reduce costs across our operations. As a direct result of the actions we have taken under the Win Strategy during the past seven years, including our ability to adjust and manage inventory on a real-time basis, Parker is better prepared to adapt to changing market circumstances and weather the challenges ahead."

Segment Results

In the Industrial North America segment, second-quarter sales increased slightly to $993.0 million, and operating income declined 24.0 percent to $107.6 million, compared with the same period a year ago.

In the Industrial International segment, second-quarter sales declined 11.5 percent to $1.0 billion, and operating income declined 34.3 percent to $115.1 million, compared with the same period a year ago.

In the Aerospace segment, second-quarter sales increased 10.0 percent to $473.7 million, and operating income increased 34.2 percent to $69.7 million, compared with the same period a year ago.

In the Climate & Industrial Controls segment, second-quarter sales declined 21.8 percent to $179.2 million, and the segment recorded an operating loss of $12.8 million, compared with an operating profit of $5.4 million in the same period a year ago.
Orders

In addition to financial results, Parker also reported a decline of 20 percent in total orders for the quarter ending December 31, 2008, compared with the same quarter a year ago. Parker reported the following orders by operating segment:

-- Orders declined 18 percent in the Industrial North America segment, compared with the same quarter a year ago.

-- Orders declined 28 percent in the Industrial International segment, compared with the same quarter a year ago.

-- Orders increased 2 percent in the Aerospace segment on a rolling 12 month average basis.

-- Orders declined 28 percent in the Climate and Industrial Controls segment, compared with the same quarter a year ago.

Outlook

For fiscal 2009, the company revised guidance for earnings from continuing operations to the range of $3.85 to $4.25 per diluted share. Previous guidance for earnings from continuing operations was $5.35 to $5.75 per diluted share.

"While the outlook holds many challenges, Parker has a seasoned management team that has experience managing through a downturn," added Washkewicz. "Workforce and expense reductions have been implemented throughout the company and contingency plans are in place should further actions become necessary. In short, we are prepared to adjust our costs appropriately to reflect changing demand levels. At the same time, we will stay vigilant focused on long-term growth and are confident that we will emerge in an even stronger position as demand in our end markets improves."

NOTICE OF CONFERENCE CALL: Parker Hannifin's conference call and slide presentation to discuss its fiscal second-quarter results are available to all interested parties via live webcast today at 10:00 a.m. ET, on the company's investor information web site, http://www.phstock.com. To access the call, click on the "Live Webcast" link. From this link, users also may complete a pre-call system test and register for e-mail notification of future events and information available from Parker.

With annual sales exceeding $12 billion, Parker Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems, providing precision-engineered solutions for a wide variety of mobile, industrial and aerospace markets. The company employs approximately 62,000 people in 48 countries around the world. Parker has increased its annual dividends paid to shareholders for 52 consecutive years, among the top five longest-running dividend-increase records in the S&P 500 index. For more information, visit the company's web site at http://www.parker.com, or its investor information site at http://www.phstock.com.

Notes on Orders

Orders provide near-term perspective on the company's outlook, particularly when viewed in
the context of prior and future quarterly order rates. However, orders are not in themselves an indication of future performance. All comparisons are at constant currency exchange rates, with the prior year restated to the current-year rates. All exclude acquisitions until they can be reflected in both the numerator and denominator. Aerospace comparisons are rolling 12-month average computations. The Total Parker orders number is derived from a weighted average of the year-over-year quarterly percent change in orders for the Industrial North America, Industrial International, and Climate and Industrial Controls segments, and the year-over-year 12-month rolling average of orders in the Aerospace segment.

Forward-Looking Statements

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the company and individual segments may differ materially from current expectations, depending on economic conditions within its mobile, industrial and aerospace markets, and the company's ability to maintain and achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins, actions taken to combat the effects of the current recession, and growth, innovation and global diversification initiatives. A change in economic conditions in individual markets may have a particularly volatile effect on segment results. Among the other factors which may affect future performance are: changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments or significant changes in financial condition; uncertainties surrounding timing, successful completion or integration of acquisitions; threats associated with and efforts to combat terrorism; uncertainties surrounding the ultimate resolution of outstanding legal proceedings; competitive market conditions and resulting effects on sales and pricing; increases in raw material costs that cannot be recovered in product pricing; the company's ability to manage costs related to employee retirement and health care benefits and insurance; and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability. The company makes these statements as of the date of this disclosure, and undertakes no obligation to update them.

PARKER HANNIFIN CORPORATION - DECEMBER 31, 2008
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)            Three Months Ended       Six Months Ended
(Dollars in thousands  December 31,          December 31,
except per share       2008                2007            2008          2007
amounts)

Net sales              $2,688,656          $2,829,060      $5,753,344   $5,616,316
Cost of sales          2,121,450           2,194,137       4,458,672    4,316,434
Gross profit           567,206            634,923         1,294,672    1,299,882
Selling, general and administrative expenses  337,183           318,961       669,866      643,922
Interest expense       30,307             26,016          58,403       48,437
Other expense
(income), net 1,843 (6,224) 11,801 (6,389)
Income before income taxes 197,873 296,170 554,602 613,912
Income taxes 42,472 84,307 149,025 172,452
Net income $155,401 $211,863 $405,577 $441,460

Earnings per share:
Basic earnings per share $.97 1.26 2.49 2.61
Diluted earnings per share $.96 1.23 2.47 2.56

Average shares outstanding during period - Basic 160,839,120 168,063,375 162,627,269 168,923,092
Average shares outstanding during period - Diluted 161,755,586 171,993,863 164,272,066 172,456,317

Cash dividends per common share $.25 .21 .50 .42

BUSINESS SEGMENT INFORMATION BY INDUSTRY
(Unaudited) Three Months Ended Six Months Ended
(Dollars in thousands) December 31, December 31,
Net sales
Industrial:
North America $993,040 $991,419 $2,100,117 $1,997,247
International 1,042,741 1,177,749 2,265,933 2,278,637
Aerospace 473,667 430,698 952,140 857,988
Climate & Industrial Controls 179,208 229,194 435,154 482,444
Total $2,688,656 $2,829,060 $5,753,344 $5,616,316

Segment operating income
Industrial:
North America $107,615 $141,680 $268,101 $296,862
International 115,122 175,227 318,074 358,660
Aerospace 69,658 51,917 137,806 109,353
Climate & Industrial Controls (12,814) 5,421 2,685 20,927
Total segment operating income $279,581 $374,245 $726,666 $785,802

Corporate general and administrative expenses 42,372 40,039 82,746 85,348
Income from operations before interest expense and other 237,209 334,206 643,920 700,454
Interest expense 30,307 26,016 58,403 48,437
Other expense 9,029 12,020 30,915 38,105
Income before income taxes $197,873 $296,170 $554,602 $613,912

PARKER HANNIFIN CORPORATION - DECEMBER 31, 2008
CONSOLIDATED BALANCE SHEET
(Unaudited)
(Dollars in thousands) December 31, 2008 2007
### Assets

**Current assets:**

- Cash and cash equivalents: $261,990, $197,650
- Accounts receivable, net: 1,682,338, 1,745,683
- Inventories: 1,519,651, 1,477,267
- Prepaid expenses: 69,498, 63,774
- Deferred income taxes: 145,131, 137,206
- Total current assets: 3,678,608, 3,621,580

**Plant and equipment, net:**

- 1,888,023, 1,804,979
- 2,884,187, 2,669,678
- Intangible assets, net: 1,236,724, 627,702
- Other assets: 427,649, 493,567
- Total assets: $10,115,191, $9,217,506

### Liabilities and shareholders’ equity

**Current liabilities:**

- Notes payable: $1,022,112, $865,058
- Accounts payable: 751,942, 756,495
- Accrued liabilities: 777,462, 770,016
- Accrued domestic and foreign taxes: 116,183, 104,919
- Total current liabilities: 2,667,699, 2,496,488

**Long-term debt:**

- 1,882,693, 1,151,469
- 480,561, 361,605
- Deferred income taxes: 216,131, 118,203
- Other liabilities: 286,426, 312,505
- Shareholders’ equity: 4,581,681, 4,777,236
- Total liabilities and shareholders’ equity: $10,115,191, $9,217,506

### CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$405,577</td>
<td>$441,460</td>
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<tr>
<td>Depreciation and amortization</td>
<td>175,885</td>
<td>155,146</td>
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<tr>
<td>Stock-based compensation</td>
<td>28,451</td>
<td>30,086</td>
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<tr>
<td>Net change in receivables, inventories, and trade payables</td>
<td>72,151</td>
<td>(90,157)</td>
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<tr>
<td>Net change in other assets and liabilities</td>
<td>(247,558)</td>
<td>(42,674)</td>
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<tr>
<td>Other, net</td>
<td>10,009</td>
<td>(20,260)</td>
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<tr>
<td>Net cash provided by operating activities</td>
<td>444,515</td>
<td>473,601</td>
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<td>Cash flows from investing activities:</td>
<td></td>
<td></td>
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<tr>
<td>Acquisitions (net of cash of $24,191 in 2008 and $11,396 in 2007)</td>
<td>(705,128)</td>
<td>(463,051)</td>
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<tr>
<td>Capital expenditures</td>
<td>(174,391)</td>
<td>(118,742)</td>
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<tr>
<td>Proceeds from sale of plant and equipment</td>
<td>10,550</td>
<td>13,571</td>
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<tr>
<td>Other, net</td>
<td>(2,973)</td>
<td>(2,701)</td>
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<tr>
<td>Net cash (used in) investing activities</td>
<td>(871,942)</td>
<td>(570,923)</td>
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<td>Cash flows from financing activities:</td>
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<td></td>
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<td>Net (payments for) common share activity</td>
<td>(430,080)</td>
<td>(475,943)</td>
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<td>Net proceeds from debt</td>
<td>911,428</td>
<td>670,344</td>
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<td>Dividends</td>
<td>(81,331)</td>
<td>(71,867)</td>
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<td>Net cash provided by financing activities</td>
<td>400,017</td>
<td>122,534</td>
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<td>Effect of exchange rate changes on cash</td>
<td>(36,648)</td>
<td>(268)</td>
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<td>Net (decrease) increase in cash and cash equivalents</td>
<td>(64,058)</td>
<td>24,944</td>
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<td>Cash and cash equivalents at beginning of period</td>
<td>326,048</td>
<td>172,706</td>
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<tr>
<td>Cash and cash equivalents at end of period</td>
<td>$261,990</td>
<td>$197,650</td>
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SOURCE Parker Hannifin Corporation